THE MISSOURI BUDGET
FISCAL YEAR 2007
BUDGET SUMMARY

I. OVERVIEW

Governor Blunt's Fiscal Year 2007 budget recommendations continue his pledge for education funding increases each year, and that he will never withhold funds from public schools. The greatest responsibility of the state is to provide a quality public education to Missouri school children. Governor Blunt's policies mirrors those of his fellow Missourians - expecting government agencies to work efficiently and effectively to achieve goals. Sound budgeting practices by the state are essential if Missouri is to progress. The state must limit the number of tasks it takes on, as it cannot be all things to all people. And for those functions it does assume, it must provide the highest level of service with minimal resources. The excellent state work force must be adequately compensated and allowed to be innovative so that they can deliver the high quality service they strive to provide.

In order to continue his practice of presenting a balanced budget, the Governor recommends core reductions totaling $417.8 million, including $101.9 million general revenue, attained through greater efficiencies and redirection of resources. His Fiscal Year 2007 budget trims the state's workforce to fewer than 60,000 positions, a level the state has not been below since Fiscal Year 1999.

Highlights of Governor Blunt's Fiscal Year 2007 budget recommendations can be found in the Policy Summary section.

II. REVIEW OF THE FISCAL YEAR 2006 BUDGET

State revenue collections have continued to grow at a steady pace. The December revision to the consensus revenue estimate resulted in an increase in estimated growth, rising to 4.9 percent, based largely on the strength of personal and corporate income taxes stemming from increased economic activity in Missouri. However, net growth has been diminished by a surge of taxpayer refunds paid out in the early months of the year. In addition, supplemental appropriations necessary to continue current state programs have proven to be considerably higher than the amount set aside for that purpose in the Fiscal Year 2006 budget. Despite this, the Fiscal Year 2006 budget remains balanced. However, should revenue collections fail to reach forecasted levels, Governor Blunt is prepared to exercise his constitutional duty to restore balance through withholding of funds.

III. THE ECONOMIC OUTLOOK

U.S. Economic Position

The performance of the U.S. economy in Calendar Year 2005 was quite spectacular, especially considering Hurricanes Katrina, Rita, and Wilma, and the devastating loss of jobs, property damage, and skyrocketing energy prices that followed. Despite this, employment continues to grow, personal income is rising at a strong rate, and corporate profits are at an all-time high. While on the rise, inflation rates remain low by historical standards, especially if volatile energy prices are excluded.

The U.S. economy will continue to grow in Calendar Year 2006, though a shift from growth in consumer spending to growth in business investment is expected as the current expansion matures. For Calendar Year 2006, real GDP is expected to rise by 3.8 percent, slightly above what is considered "trend" growth. Employment is expected to grow by about 2 million jobs, or an average of 1.5 percent, while unemployment is projected to be below 5 percent. Personal income is expected to increase by over 6 percent, indicative of continued growth in both salaries and nonwage earnings. Consumer expenditures are anticipated to increase by 5.6 percent, but much of this increase is due to relatively high prices for gasoline and other energy products. The inflation rate as measured by the Consumer Price Index is expected to average 2.8 percent in 2006, with core inflation rising only modestly. The Federal Reserve will most likely continue to raise interest rates. Economic forecasts indicate corporations will continue to enjoy profit gains, but at a slower rate of growth as labor markets tighten and interest rates rise. These overall trends should continue into Calendar Year 2007.

This overall favorable outlook is supported by the following factors:

- Energy prices are expected to decline slightly from record summer highs. Oil prices declined from historical highs of over $68 per barrel in August 2005 to around $58 per barrel by mid-December. Oil prices are expected to gradually decline through 2006 and 2007 to about $52 per barrel.
- Consumer spending will remain relatively strong, supported by strong personal income growth.
- Business investment is expected to expand as increased profits and high productivity have provided ample financing for capital outlays.
- Net exports are expected to increase moderately as a weaker dollar makes U.S. goods and services abroad more affordable.

However, while the U.S. economy continues to rebound, substantial downside risks remain. For instance:

- The nation's energy infrastructure remains precarious and seemingly vulnerable, and global demand for oil continues to rise. Although oil prices have declined, and are expected to do so slightly over the next couple of years, any sudden disruptions in supply or increases in demand would trigger a rebound in volatile energy prices.
- Rising interest rates could cool consumer spending more than expected. Sales of new and existing homes, as well as construction and home improvement materials, will likely fade. Similarly, consumers may be wary of "big-ticket" electronics and appliances in this environment. Further, households may decide to increase their saving rates.
- Global economics could diminish growth in the U.S. The trade deficit between the U.S. and its partners continues to grow, and may be approaching unsustainable levels. Should foreign investment in the U.S. wane, a slow-down in U.S. growth could occur.
- A major terrorist attack on American soil or against U.S. interests abroad could derail economic activity.

Missouri Economic Position

The Missouri economy has surged forward in Calendar Year 2005, and is projected to show stable growth over the budget horizon. Employment grew by nearly 28,000 jobs, on average, over the first three quarters of 2005 and employment growth is steadily increasing, driven by job gains mainly in the service industries. Personal income over this same time frame has grown by 5.6 percent, driven by growth in wages and salaries over 6 percent. However, the base realignment and closure recommendations will negatively impact this growth in 2006, as Missouri is expected to suffer a direct loss of over 3,000 jobs and even more jobs indirectly. Further, Missouri's manufacturing and auto industries continue to struggle with challenges related to outside competition, high energy prices, and reduced demand. High energy prices will weigh on Missouri's service and agriculture sectors as well. In spite of these obstacles, personal income is expected to grow 6.2 percent in Missouri in Calendar Year 2006, and a still respectable 4.1 percent in Calendar Year 2007.

Economic Projections

	Increase	
U.S.	**Calendar Year 2006**	**Calendar Year 2007**
Real GDP	3.8 %	3.5 %
Total Employment	1.5 %	1.4 %
Unemployment Rate	4.9 %	5.0 %
Personal Income	6.4 %	6.2 %
Consumer Expenditures	5.3 %	5.6 %
Consumer Prices	2.8 %	2.0 %
MISSOURI		
Total Employment	2.2 %	1.0 %
Personal Income	6.2%	4.1%

IV. REVENUE PROJECTIONS FOR FISCAL YEARS 2006 AND 2007

Revenue forecasting is a difficult task under the best of circumstances. Dynamic energy prices and the uncertainties they create further complicate this task. Nonetheless, the state must move ahead with its budget based on the best available economic information. Governor Blunt is committed to working constructively with members of the legislature to ensure the state follows sound budget policies. As a first step, the Governor worked with legislative leaders to develop a consensus revenue estimate.

Reasonable general revenue growth is expected in the coming fiscal year. The revised Fiscal Year 2006, and initial Fiscal Year 2007, revenue estimates project net growth of 4.9 percent and 4.5 percent, respectively. Fiscal Year 2007 will continue to feel the effects of the implementation of the 2004 transportation ballot initiative, Constitutional Amendment No. 3. This will lower general revenue collections by an estimated $30 million.

V. REVENUE LIMITATION AMENDMENT

Article X of the Missouri Constitution established a revenue and spending limit on state government. The limit is about 5.6 percent of Missouri personal income, based on the relationship between personal income and total state revenues when the limit was established and approved by voters in November 1980. Calculations made pursuant to Article X of the Missouri Constitution show that total state revenues for Fiscal Year 2004 were below the total state revenue limit by $1.5 billion.

The Office of Administration projects that total state revenues will not exceed the total state revenue limit in Fiscal Years 2006 or 2007. These preliminary calculations are subject to change as actual state revenue collections become known and as the federal government revises its estimates of Missouri personal income. These projections could change if the General Assembly were to pass legislation to increase revenue without a vote of the people. Per Article X of the Missouri Constitution, revenue increases approved by the voters are not subject to the revenue and spending limit.

Fiscal Year 2007 Budget Recommendations
General Revenue Budget Pie Charts
Total State Revenue Pie Charts
General Revenue Receipts and Estimates

General Revenue Summary
Operating and Capital Budget Summary
Supplemental Recommendations—Fiscal Year 2006

MISSOURI MEDICAID PROGRAM

	FY 2005	FY 2006 w/ Supplementals	FY 2007
General Revenue	$1,248,740,225	$1,205,797,975	$1,402,717,670
Federal Funds	3,025,455,431	3,225,577,710	3,426,796,644
Other Funds	1,454,977,447	1,339,209,627	1,220,657,314
	$5,729,173,103	$5,770,585,312	$6,050,171,628

The Medicaid Program (Title XIX of the Social Security Act) is a federal-state effort begun in 1965 to meet the health care needs of those who cannot pay for their own care. The program health care services include hospital, physician, pharmacy, skilled nursing home care, home health care, mental health, and managed care. While states must meet certain minimum criteria, each state can establish eligibility guidelines, benefit packages, and provider payment rates for their state Medicaid Program. For Fiscal Year 2007, the Missouri Medicaid Program totals just over $6 billion. Health care services will be delivered to approximately 900,000 of Missouri's neediest citizens, including the elderly, the disabled, children, and pregnant women, through the Medicaid, SCHIP (State Children's Health Insurance Program), and State Medical programs.

The chart includes Medicaid funding in the departments of Social Services, Mental Health, Elementary and Secondary Education, and Health and Senior Services. The dollars are budget expenditure and appropriation amounts, and do not include Local and Certified Match funds for other allowable Title XIX claims.